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AICPA *Washington Report*

Volume 1, Issue 17

April 30, 1973

ACTION

The agency's annual report for 1972 has recently been issued, which provides a detailed description of the various programs in this country and abroad which fall under its sponsorship.

A limited number of copies are available from the Agency's Public Affairs Office, Washington, D. C. 20006.

AGRICULTURE, DEPARTMENT OF

The REA loan program, which passed the House on 4/4 and went to conference with Senate members on 4/17 remains unresolved. The conferees were unable to complete action on a report and they are expected to meet again soon after the Easter recess and settle variances in the 2% loan program.

CIVIL AERONAUTICS BOARD

Proposed amendments to the Board's Uniform System of Accounts appeared in the 4/25/73 Fed. Reg. (p. 10162). The change would require carriers to use the accrual method of accounting with respect to reporting liabilities for personnel vacations. Comments on the proposal will be accepted until 5/25/73.

The Board has also proposed amendments to Part 241 of the Uniform System of Accounts for classifying revenues from certain passenger categories. The proposed changes appear in the 4/24/73 Fed. Reg. at p. 10118-9. Comments are due by 5/24/73.

COMMERCE, DEPARTMENT OF

Copies of the "Accounting System Survey and Audit Guide" (as reported in the 4/16/73 Report) can be obtained directly by writing: Sidney S. Baurmash, Director, Office of Audit, U.S. Department of Commerce Room 1171, CP6, Washington, D.C. 20230 (tel. 703-557-2086)

COST OF LIVING COUNCIL

Economic Extension legislation will come up for consideration in the Senate on Monday (4/30). The House conferees have accepted the Senate provision to require companies having more than \$250 million in sales to report publicly their costs and profits when seeking price increases of more than 1.5 percent for a product that accounts for 5 per cent or more of sales. The Patman bill (HR 6168) was defeated on 4/16/73 in the House, just prior to the recess.

Both chambers will consider the Conference Report on Monday, the same date the present law expires.

ENVIRONMENTAL PROTECTION AGENCY

A House GOP Environment Unit has been formed and a Task Force of 15 Representatives has been appointed, headed by Rep. Pierre S. (Pete) Dupont (R-Del.). The Task Force will consider legislation impacting on the environment. Its reports will go to the House Republican Conference.

FEDERAL DEPOSIT INSURANCE CORPORATION

Tighter controls in the Bank Regulatory System were advocated in a recent speech by Frank Wille, Chairman, FDIC. While the Administration prepares its recommendations for overhauling the entire financial system (the Hunt Commission Report), insufficient attention has been given to the problems of bank regulation and the role played by the Justice Department and the SEC, and even the FTC.

He urged members in those states whose laws do not permit joint examination procedures to look into the potential savings in time and efficiency, and offered the assistance of his Regional Directors to explore alternatives.

HEALTH, EDUCATION AND WELFARE, DEPARTMENT OF

Education revenue sharing is currently being discussed before the Senate Labor Committee's Education Subcommittee. The Administration proposal (S.1319) was supported in testimony by Secretary Weinberger at a recent committee hearing. The measure, among other things, provides funds specifically marked for the education of the handicapped as well as supporting services and materials.

HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF

The last revenue sharing program entitled the "Better Communities Act of 1973" has been introduced by the Administration. The bill provides for \$2.3 billion of shared revenues to cities, urban counties and states for community development activities, beginning July 1, 1974. There is a requirement for post audits of all shared revenues.

Additionally, HUD will provide assistance needed for strengthening the capacity of state and local governments in planning and administering general Federal assistance programs including community development activities. To provide this needed aid, on a more effective basis, the Administration intends to submit a proposed "Responsive Governments Act". HUD would also audit local financial records to assure proper use of the funds.

INTERIOR, DEPARTMENT OF

Amendments to the Contract Clauses and Audit provisions have been recently adopted (4/20/73 Fed. Reg., p. 9816). The changes affect Subpart 14 - 63.1 (Audit of Contractor's Records) which covers the types of contracts subject to audit and accompanying requirements.

LABOR, DEPARTMENT OF

The Annual Report to Congress of the Public

Employment Program (PEP) has recently become available. The report is issued as required by the Emergency Employment Act (EEA) of 1971. There is a section regarding the independent evaluations of the local programs conducted for the Manpower Administration. Audits are performed by department personnel or CPAs. Copies of the Report are available through the Office of Public Employment Programs, DOL, Washington, D. C. 20210.

The House Education and Labor Committee, earlier in April, ordered reported a bill (HR 4204) to extend for 2 years the EEA. The bill would authorize \$4.5 billion to states and local communities to provide jobs and training for the unemployed. The Administration has proposed consolidating the program which expires this June into a manpower training and special revenue sharing program.

SECURITIES AND EXCHANGE COMMISSION

Disclosure for institutions was called for by the

Chairman in a recent address to the Economic Club of Chicago. In his address, Mr. Cook indicated that the Commission will seek legislation in the form of an "Institutional Disclosure Act", which would give the SEC rulemaking power to require all types of institutional investors, banks, insurance companies, pension funds, and the like, to disclose holdings and transactions in securities over which they have investment authority.

Earlier, Mr. Cook addressed the American Society of Corporate Secretaries, and stated the SEC will not apply new rules governing earnings projections retroactively. He indicated that the thrust of any rules and guidelines established by the SEC on projections will be for full disclosure, and that the rules would only be adopted after publication for and the consideration of comments.

Amendments to registration forms have been adopted to require disclosure of effects of compliance with environmental requirements. (Rel. No. 33-5386 of 4/20/73.) The revisions deal with disclosures designed to describe the effect upon an issuer's business of compliance with Federal, State and local provisions dealing with environmental

protection, and to describe administrative or judicial proceedings arising from such provisions. The forms amended by the Commission's action are Forms S-1, S-7, S-9 under the Securities Act, and Forms 10, 10-K, and 8-K under the Securities Exchange Act. The amendments will be effective with respect to reports and registration statements filed on or after 7/3/73.

The Real Estate Institute of NYU will hold a seminar on "Real Estate Accounting and Financial Reporting" in New York on May 1. For further details, call 212/489-8723.

SMALL BUSINESS ADMINISTRATION

The SBIC revolving fund legislation is ready for Senate action as the Full Committee on Banking, Housing and Urban Affairs approved it on 4/17/73. The loan ceiling would increase to \$800 million. The SBA has testified in favor of the revolving fund which will permit effective funding through 6/76. House consideration of the measure is expected in mid-May.

TREASURY, DEPARTMENT OF

The Federal Financing Bank legislation has been approved by the Senate Banking Committee. The measure would create a "bank" which would consolidate the funding requirements from numerous programs and be responsible for all the money-raising activities of many Government departments and agencies. Currently, these separate activities involve \$60 billion a year in agency borrowings.

No action has been taken by the House on the "bank" bill, although the Ways and Means Committee held a public hearing on the proposal March 1.

General Revenue Sharing plans were presented in a special revenue sharing edition of the County News, a weekly publication of The National Association of County Officials. Included in the 8-page article is a section on "GAO Auditing Procedures", as well as an article by the Director of the ORC, Graham Watt, which included some advice on "auditing procedures".

The Administration's trade proposal (HR 6767) will be taken up by the House Ways and Means Committee beginning on May 9th.

An IRS public hearing on long-term contracts and advanced payments accounting has been announced for 5/31/73.

Under consideration are the proposed regulations under Section 451 and 471 of the Internal Revenue Code for which an extension of time for comment was granted on 1/24/73. Also, the proposed regulations under Sections 61, 446, and 471 of the Internal Revenue Code as appearing in the Fed. Reg. of 2/13/73 are being considered.

BUSINESS-GOVERNMENT PROCUREMENT CONFERENCE

A Business Opportunity Federal Procurement Conference will be held in Rockville, Maryland on 6/8/73.

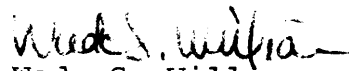
DOD and the Commerce Department have organized participation by various agencies including Army, Navy, Air Force Defense Supply Agency, AEC, FAA, GPO, NASA, Interior, SBA, and VA. Purchasing specialists from these Federal agencies and large prime defense contractors will be available for counsel on how to do business with the government.

For further information, contact George J. Mannina, Jr., (Aide to Congressman Gilbert Gude) at (202) 225-5341.

CPA'S IN THE NEWS

Nelson S. Kibler, CPA, has recently been appointed Assistant Director in the Office of Broker-Dealer Financial Responsibility and Securities Transactions, Division of Market Regulation of the SEC. He served in the Chief Accountant's office and the Market Regulation Division prior to this assignment.

Harry Melamed, CPA has been named Assistant Director/ Special Projects in the Commission's Office of Broker-Dealer Financial Responsibility and Securities Transactions. He has been with the Commission since 1968.


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WASHINGTON LIAISON ACTIVITIES

Supplement No. 3

April 30, 1973

Audit Guides Issued by Federal Agencies

Audit Guides for Federally funded programs, published since our last report, which have incorporated the recommendations of AICPA committees include:

- Public Employment Program (Department of Labor)
- Manpower Administration Contracts (Department of Labor)
- Small Business Investment Companies (SBA)
- Accounting System & Audit Guide for OEO (OEO)

Department of Agriculture

Villiers Gerd, Chairman of the Committee on Relations with the Department of Agriculture, will be a guest speaker at the annual meeting of the Rural Electrification Administration to be held in Colorado this June.

Economic Stabilization

The staff attended three meetings of the AICPA committee formed to advise the Cost of Living Council on accounting matters related to the food industry.

Federal Power Commission

The Committee met with representatives of the FPC staff. Among matters discussed were:

- determination of the appropriate portion of interest and other costs which should be capitalized in connection with construction projects, and the reporting thereof in the statement of changes in financial position;
- problems of interpretation of the concept relating to matching of costs and revenues for regulated industries, as expressed in the addendum to APB Opinion No. 2;
- determination of the costs of construction and of operation, in excess of costs that would otherwise have been incurred, for control of pollution or for other environmental or social welfare considerations;
- use of accountants' work papers by FPC examiners to avoid duplication of effort.

Federal Taxation

The Committee on Tax Accounting met with Treasury officials to discuss the proposed regulations under Section 471 regarding inventory costing. In addition, the Tax Division requested that it be given the opportunity to appear at a public hearing on the proposed regulations.

A memorandum regarding the effect of APB Opinion No. 20 relating to accounting changes on the conformity requirement of Section 472 of the Code was submitted to Peter Weidenbruch, Assistant Commissioner, Technical. The memorandum sets forth the basis for a conclusion that the financial statement requirement of Section 472 is met when a taxpayer changes from the first in, first out method of accounting for inventory to the last in, first out method and applies the rules of APB Opinion No. 20.

Comments on proposed regulations regarding domestic international sales corporations were submitted to the Internal Revenue Service, April 24, 1973. The comments pertained to Sections 301, 992, 993 and 994.

The Tax Division's Spring meeting will be held May 12-17. The following guests are scheduled to address the meeting: Frederic Hickman, Assistant Secretary of the Treasury; Peter Weidenbruch, Assistant Commissioner, Compliance, IRS; Lee Henkel, Jr., former Chief Counsel, IRS; Donald McDonald, Chairman, Section of Taxation, American Bar Association; Paul Crampton, Assistant Attorney General, U.S. Department of Justice; Bob Shapiro, Attorney Advisor, Joint Committee on Internal Revenue Taxation; and Representative Al Ullman, Oregon (D), member of the House Ways and Means Committee.

General Accounting Office

A second draft has been prepared of the AICPA report on application of the "yellow book" to audits of grantees of government grants.

Health Care Institutions

At a recent meeting, the Committee discussed with representatives of the American Hospital Association the problem of preparing and reporting on feasibility studies which generally are required in connection with new construction of hospital facilities. A problem arises in light of the uncertainty as to whether the Cost of Living Council will permit rate increases to fully recover costs of such construction.

Interstate Commerce Commission

At a meeting of the above committee with staff of the ICC, it was disclosed that the staff was proposing adoption of equity accounting and tax allocation in reporting by companies subject to ICC rules. It was suggested, in interpreting accounting rules of the Commission that are intended to conform to "generally accepted accounting principles", that the ICC staff rely on financial statements approved by the carrier's CPA, rather than having the Commission attempt to write instructions. The staff of the Commission indicated dissatisfaction with APB Opinion No. 17 which requires motor carriers to amortize the cost of intangible operating rights. There was discussion of the use of ICC auditors of CPA work papers.

Office of Economic Opportunity

The staff has met with OEO staff members regarding audit reports which the OEO representatives consider substandard. The OEO staff was encouraged to submit such reports to the Technical Standards Committee for review.

Office of Foreign Direct Investment

At a meeting held in New York City on April 10, 1973, the committee voted to recommend that it be put on an inactive basis. The OFDI program is expected to be phased out in 1974 and the Committee would be phased out concurrently.

Technical Studies

Technical Study No. 1 - Accounting Procedures Within the Federal Government. A first draft of the manuscript has been received from the authors.

Technical Study No. 2 - Inventory of Audit Guides for Federal Grant Programs. The Washington staff has begun initial research on the proposed study.

Staff Increase

Joe Picciano joined the staff on April 16 as Manager - Special Projects.